

# Afghanistan: Setting the stage for takaful



Market players in Afghanistan are recognising and exploring the potential of takaful, says **Mr Alberto G Brugnoli** of **ASSAIF**, as he highlights the areas where it can make a difference.

**T**he Afghan insurance market is conventional and regulated by the Afghanistan Insurance Authority (AIA), which sits under the Ministry of Finance. Regulations include Insurance Procedures to Accompany the Insurance Law of the Islamic Republic of Afghanistan of 2008, and the Insurance Law of the Islamic Republic of Afghanistan of 2009. They are complemented by the Law of the Land and the Commercial Law.

A draft of the new law on insurance is under discussion at the Parliament. AIA has also issued specific regulations on civil aviation, third-party car liability, and others. At present, there are neither guidelines nor regulations in place which address the takaful market.

Every business needs a licence (renewable annually) from the Afghanistan Investment Support Agency (AISA) and certain financial market companies, including insurers, require an additional licence from the Ministry of Finance. The minimum capital required for life insurance is US\$8 million, and for non-life insurance companies, it is \$2 million.

## Market structure

There are four insurance companies operating in Afghanistan:

- Afghanistan National Insurance Company, established in 1964, and owned by the state;
- Insurance Corporation of Afghanistan, the first private insurance company to be licensed in Afghanistan in 2008, set up by a group of experienced investors and managed by a team of professionals from the London market;
- Afghan Global Insurance, established in 2010 and owned by local investors and businessmen; and
- Insurance Group of Afghanistan, established in 2012 and owned by the Ghazanfar Group.

Business is placed directly with companies/prospects as there are no brokers or agents in the Afghan market. Advertising is carried out on very large billboards. Some companies have regional offices and one has a representative office in Dubai. Any reinsurance is placed outside the country, and most of that goes into the London market, particularly at Lloyd's, some of whose syndicates back various lines in different companies.

## General insurance dominates

The Afghan market comprises mostly general insurance and focusses on commercial lines.

These include:

- Transportation, as virtually everything imported into this landlocked country arrives by road;
- Aviation, including passenger liability, general liability, and airport and associated liability;
- Construction, mining and engineering, with huge risk variations ranging from large infrastructure projects to small buildings and facilities;
- Motor fleet;
- Property, such as buildings, machinery and plants, office contents, computers, work in progress, stock and vehicles;
- Liability, including general third-party liability, product liability, liability to employees, professional liability and workmen's compensation; and
- Other lines, such as logistics, security, equipment and telecommunications.

Personal lines include home insurance, health, car insurance which is compulsory, and banks and financial institutions to cover the repayment by the customer of a business or personal loan following the death of the



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borrower or a key person. Most personal lines are group insurance. The life insurance market is utterly underdeveloped and includes individual and group covers.

### Insurance is taking off

Evaluating the insurance market is an extremely difficult exercise as most of the commercial lines that form the backbone of the general insurance market are non-admitted insurance that escape taxation and any statistical survey. Non-admitted insurance is a breach of law, and punitive actions may be taken by the authorities, though this practice continues unabated as there is lack of resources to effectively police this.

The blossoming of the insurance market is held in check by the under-development of the economy, which mostly impacts commercial lines; and by cultural and religious concerns, which mostly impact personal and life lines. These are the areas where the takaful proposition may play an important role and make a difference.

### Room for takaful

Indeed, all evidence gathered points to the fact that the Afghan economy is on the verge of great change. This change will have important consequences on admitted insurance business for the growth and extension of its commercial lines. And commercial takaful could play a role in tackling major risks if some of the financing needed is raised “Islamically” through sukuk issuances, Shariah-compliant public-private partnerships and hybrid structures. Besides, takaful contributions must be invested in Islamic instruments such as sukuk, and the much-talked-about issuance of a sovereign sukuk will definitively help matters.

The consequences of developing key sectors of the economy will reverberate through a society still largely composed of rural and traditionally minded communities, certainly causing uneasiness and tensions, and bring to the fore a middle class with growing expectations. Takaful, a culturally accepted way of insuring, as well as a way to plan for the future and accumulate wealth, is one of the tools that could contribute towards managing social changes and keeping tensions at bay.

Takaful is the talk of the day in Afghanistan, and it is perceived as a strategic proposition, though not as yet a readily actionable option. Regulators and conventional insurers are keen to understand its features and mechanics as there is an agreement that the only way to build a domestic retail insurance industry will be through takaful products marketed by regional and local offices. Some companies may want to venture into takaful to differentiate themselves and compete, not only on prices, but on the value proposition, and show society that they care for local culture and customs. One company has made an interesting comment linking the development of takaful to a “blue ocean” (as opposed to a “red ocean”) strategy, which is certainly the case.

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### Key developments

Against this background, the following actions have been taken by ASSAIF:

- The AIA has been provided with general guidelines and with an actionable regulatory framework to allow for the establishment of a level playing field for takaful players, initially through windows;
- Local Shariah scholars have been contacted to ascertain which model is deemed acceptable under local rules and customs, and more generally to sound them out on the takaful concept per se; and
- Education and capacity-building workshops have been held on topics including the segregation and treatment of funds, product design and pricing, takaful products and development issues, surplus distribution, actuarial concepts, takaful contracts and underwriting, and retakaful.

A marketing plan has also been developed by ASSAIF and shared with all interested stakeholders. It highlights the following points:

- Personal lines, as the local retail market is particularly sensitive to cultural and religious arguments;
- Property (both commercial and personal), where damage is easily quantifiable. It comprises residential, commercials (shops, retail) and industrial;
- Group propositions (as the disposable income is simply not there for individual propositions) especially those segments where premiums are small, but the number of policyholders is great, such as Afghan public employees;
- Making insurance available to local enterprises, by focussing on the industrial parks in Afghanistan and the value chains of specific industries, such as the textile industry;
- Trucking, as there are tens of thousands operators but only a handful with a fleet of 2,000-3,000 machines;
- The development of pension funds;
- Family products with the full backing of Shariah scholars due to religious sensitivity; and
- Political violence covers that are non-existent.

ASSAIF has also developed the basic structure of three products: in family takaful – a policy for public employees, based on mudharaba; and in general takaful, it has “takafulised” an existing motor vehicle plan, as well as a conventional insurance for property used as collateral. Both are based on wakala.

### The stage is set

In conclusion, the stage has been set for the development of takaful that should go hand in hand with the blossoming of Islamic finance in the country. Recently, an Afghan investor based in Europe asked the AIA for permission to establish an Islamic insurance company, and AIA is in the process of completing the draft takaful regulation.■

Mr Alberto G Brugnani is the Founder and Managing Partner of Islamic finance consultancy ASSAIF and lives in Kabul. In 2012, he worked with the Afghan regulators and stakeholders to lay the foundations for takaful, and is presently working on a nationwide plan to deliver Islamic modes of financing to rural communities across the country.